

AN EXAMINATION OF THE GENESIS AND NATURE
OF THE RECENT REFORM-RECOVERY MOVEMENT

BY
DUNBAR SIMMS McLAURIN

A. B., Southwestern College, 1937

A. M., University of Kansas, 1938

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SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
IN THE GRADUATE SCHOOL OF THE UNIVERSITY
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Capitalism today is in crisis. It is in crisis not alone in the United States, but throughout the world. This crisis arises from the demonstrated inability of orthodox capitalism to cope satisfactorily with the vast distributional and social problems, consequent upon the widespread adoption and usage of modern industrial methods.

Broadly, it may be said that the purpose of this study is to examine the proposition that capitalism in the United States can save itself, and much that it represents, by transforming itself. Perhaps therein lies a paradox, for it is questionable whether after capitalism has been sufficiently transformed to these ends we can call it "capitalism" at all. In any case, the vast number of recent proposals which have been advanced in an attempt to meet the challenge to capitalism and to the social and political order which accompanies it—by a combination of individual liberty and initiative with collective planning, control, and action—seems to mark a new phrase in the intellectual and moral development of mankind. More particularly then, we shall be concerned with an examination of the genesis, nature, and significance of the various proposals which have been advanced to reform capitalism, in an effort to understand whether or not it seems possible to evolve from them a program of national economic procedure which promises that desired degree of cultural, political and social balance and stability which can flow only from a soundly balanced economic foundation.

The Reform-Recovery-Movement under consideration may perhaps properly be said to date from the deluge of proposals, schemes, and "plans" which flooded the country during the great depression of 1929. Prescriptions for our economic ills became the stock-in-trade of savant and layman alike. Like mah-jong, flagpole sitting, and chain letters, the craze of concocting plans swept the nation; it became the great American pastime—and depressed America had plenty of time. Truly the era of the "soap-box messiah."

It is not difficult to perceive that the proximate or the immediate causes of this Reform-Recovery-Movement may be found almost entirely in the cataclysmic and devastating effects of the great depression, which set in after 1929. It did not take long for the dismal spectre of mass unemployment, acute poverty, and rusting machinery to dissipate the traditional belief in the immutability of the capitalistic system—a belief which had been fostered by the unprecedented period of mass consumption and feverish prosperity from 1922 to 1929—and to launch a sweeping movement to reform that system.

But it is only in a narrow sense that the 1929 debacle can be thought of as the real cause of the Movement, for when placed in true historical perspective it appears as only one of the increasingly severe periodic breakdowns which have plagued the capitalistic system for many years. For the real cause, for the true genesis then, we must look to the basic reasons for these periodic failures of the capitalistic machine; we must inquire why it is that capitalism no longer solves satisfactorily the problems of a modern economy, why, because of its failure to avert the increasingly severe and protracted “crises of abundance”, it has precipitated the bitter and determined attack of the Reform Movement now under purview.

The reasons for this breakdown may perhaps best be ascertained by comparing the actual capitalistic system as we know it with the perfectly functioning capitalistic system of theory upon which it is presumably based. Some such array of institutions as the following suggest themselves as the essential ingredients of the capitalistic system: Economic Motivation, Private Property, Freedom of Contract, Freedom of Enterprise, Monetary Pricing System, Competition, and Laissez-Faire. When these institutions are collocated in the theoretical system, they result in an automatically adjusting economy in which all resources are rationally allocated to their most economic uses. Actual capitalism proceeds upon the assumption that when these institutions are likewise collocated in the real world, they will attain something of the same results. Examination, however, shows this to be a false assumption. For the changed technological nature of our economy has rendered inapplicable and obsolete much of a theory designed for an atomistic economy of the Adam Smith type. It therefore becomes impossible

for these institutions to operate in practice as they do in theory.

The consequences are plain: the capitalistic system as a whole faces breakdown. For as Veblen has well pointed out, it is peculiarly true of the capitalistic system "that the due working of any part of it is conditioned on the due working of all the rest." ¹ Thus if competition fails to perform its regulative function, prices no longer reflect true market decisions, the profit motive becomes distorted, ownership of private property becomes separated from its control, freedom of contract and enterprise are seriously impaired, and finally, laissez-faire as a state policy becomes intolerable. Such a sequence may start at any place, but the end results are much the same—the system as a whole fails to function properly, or at all.

This inquiry into the long-run genesis of the Movement has important implications for the rest of our study. For it reveals that the causes of the capitalistic breakdowns are basic and deeply rooted in the heart of the system. They are the result, not of temporary maladjustments, but of long-run and fundamental changes in the structural basis of the system. We thus know at the outset that no proposal which sets forth a mere temporary palliative will suffice. To be really effectual, any prescription for our economic ills must be one which promises to strike deep into the heart of the capitalistic system and treat, not the symptoms, but the real causes of the ailment. With this in mind, let us turn to an examination of the nature of some of the proposals advanced for the attainment of a new and hybrid sort of "reformed capitalism."

The immense number of the "plans" has already been alluded to. So great was the quantity there is small wonder that there appeared a respectable journal bearing the descriptive title,

(1) Thorstein Veblen, *Engineers and the Price System*, 1921. Pp. 52-53.

Plan Age.² Omitting the numerous monetary schemes,³ we may, with perhaps slight injustice to particular proposals, survey the general movement under the headings of proposals for: (A) Popular Panaceas, (B) National Economic Councils, (C) Voluntary Planning by Business, and (D) Government-Business Planning.

(A) **Popular Panaceas.** Without wishing to attach an odor of disapprobation, we have elected to place under this heading that whole mass of proposals which, for one reason or another, we believe to be so impractical as perhaps not to merit serious consideration. This is admittedly at once an arbitrary and risky procedure, for herein is contained the great mass of lay thinking. But as Spahr has put it, "zeal is no substitute for good economics." Typical of this group are proposals for barter economies, dual societies, and various schemes to divert income from one group to another. Under this banner may be found such familiar schemes as Sinclair Lewis' EPIC plan for California, "Technocracy," and the celebrated Townsend Plan.

(B) **National Economic Councils.** Beginning in early 1931, one of the most popular proposals was for some central body which could serve as a clearing house of business information and facts, and could advise both business and government. In one form or another the proposal was advanced by such organizations as the American Federation of Labor, the Progressive Conference, and the United States Chamber of Commerce, and by such authorities as Lewis L. Lorwin, George Soule, and Dean Wallace Brett Donham. Perhaps its crescendo was reached in the extensive Congressional Hearings on the La-Follette Senate Bill to establish such a council. Although precise recommendations as to what this body should be, how it should be constituted, what powers it should have, whether it should be public or private, etc. were perhaps as diverse as the sources, there was general agreement on the principle that this council should have only advisory, fact-finding powers, though it was felt by many that its recommendations would probably carry great weight.

(C) **Voluntary Planning by Business.** A common prescription (2) Journal of recently organized National Economic and Social Planning Association (NESPA).

(3) These proposals are so numerous and esoteric that it is felt they merit separate treatment. While there is a grain of truth in some, most have been exaggerated into the logic that it is the monetary tail that wags the economic dog.

tion for the amelioration of our economic ills has been the proposal to grant official and legal monopolistic power to industry under the guise of "industrial self-government." Since it has received little academic support, the prescription has naturally come most loudly from business sources themselves. Perhaps typical is the widespread popularity enjoyed by the "Swope Plan". More refined and extreme versions of the plan have, however, been enunciated respectively by the U. S. Chamber of Commerce, which adds a central advisory Council, and by Benjamin Javitts, who proposes a fairly complete "separation of industry from the State." The typical proposal is for repeal of the anti-trust laws, permitting each industry to "plan" on a voluntary basis, usually through trade associations, and to arrange for its own business practices, impeded at best only by the vague sanction of a passive governmental supervisory body. This proposal came precariously close to actual realization under the National Industrial Recovery Act of the New Deal.

(D) **Government-Business Planning.** There is finally that group of proposals which attempt to combine the virtues of Voluntary Business Planning with those of a Council's ability to coordinate the economy, add to them a measure of compulsion, and emerge with a hybrid which is the nearest approach to comprehensive economic planning in the Russian manner that has yet been widely advocated for the United States. Detailed variations are pronounced, ranging all the way from Stuart Chase's "Peace Industries Board", to Charles Beard's proposal to syndicate all the basic industries and operate them as "public utilities." They all have in common, however, that they attempt to provide in one way or another for as much productive of some curiously ingenious results. Perhaps retention of private property seems to permit. This has been productive of some curiously ingenious results. Perhaps typical is the "Industrial Expansion" scheme, championed by Mordecai Ezekiel. A detailed and extensive examination of this proposal reveals that, while its attempt to provide for the concerted expansion of production by the ingenious device of governmental underwriting and guarantees, seems to promise perhaps the nearest approach yet to a successful hybrid economy, in actual operation it too would probably fail under force of the basic incompatibility of private property and state economic planning.

Surveying the Movement as a whole, it seems possible to reach some general conclusions. In the light of the demonstration that our economic ills are deep-seated, one is first of all impressed by the fact that none of the proposals seems designed to cope with the really fundamental and basic causes of trouble. If, dismissing ethical consideration, the temporary objective of attaining economic balance and stability be agreed upon, it must be plain that some of these proposals are much better adapted to the achievement of this end than others.

But it must be equally plain that all fall short in some significant respect of what is necessary to achieve that goal. The devices proposed here cannot be expected to carry out major economic plans for stabilizing industry or prices or for preventing depressions. They cannot be expected to go to the very heart of the trouble and order output increased here and decreased there. They cannot be expected to bring about that needed coordination between industries, and between production and consumption. And the reason they cannot be expected to bring about these needed results is simply that they are neither designed for the task nor equipped with the tools for its execution. This fact in turn seems to have been due to a general desire to evolve some sort of hybrid "controlled capitalism" in which all of the best features of planning would be combined with all of the best features of capitalism. Such an objective perhaps betrays ignorance of the fundamental issues involved.

A general lack of analysis would thus seem to be a chief characteristic of the Reform-Recovery Movement as far as it has gone. The character of many of the proposals is dictated by emotional reactions and moral and aesthetic values only remotely connected with the matters of stability and efficiency involved. Few of those who set forth these proposals appear economically literate enough to enter into an analysis of the contemplated pricing process of the new economy which they preach, or else the theory of prices is generally distasteful to them. Likewise, such examination of the social and political implications involved as would seem appropriate to proposals for the reform of the capitalistic system is at present in a rudimentary stage. Mainly it is propagandist, attempting to win adherents to the idea of the necessity of "coordinated" control.

It would seem then that, up to the present time, writers who look to forms of control of a rather regimented or collectivistic character within capitalism have failed to come to grips with the really underlying intellectual problems. The serious consequences of instability under the present order prove nothing concerning the relative merits of alternative arrangements. Few of these writers seem to have grasped the complexity of the modern economic structure, which functions so unobtrusively that it is easy to take the interrelations of its parts for granted and to assume that we shall retain our present coordination in a new economic order without the deliberate organization of an alternative system. It would seem to be the duty of all of those who advocate a change to acquaint themselves with the implications of that change.

And yet, with all its inconsistencies, vagaries, and shallownesses, the attack upon the adequacy of a system of unregulated private enterprise for fulfilling the needs of a modern economic community, either spiritually or materially, has its undoubted negative or stimulating value. This literature represents a widespread doubt on the part of the average man as to the possibility of continuing indefinitely the economic and political methods chiefly responsible for the periodic recurrence of violent social and economic cataclysms; it represents an unprecedented willingness to modify or accept modifications of this system, even if this means scrapping substantial parts of it. And in view of the deeply engrained American ethic and robust tradition of private enterprise and almost untrammelled individual expression, this change of attitude must be considered in many respects as perhaps the most significant phase of the movement.

In the final analysis, this literature of the crisis must seem to represent, in the words of Beard, "a new intellectual and moral climate for America."

"Wass mann nicht kann 'meiden, muss mann willig leiden."
"What can't be cured, must be endured."

VITA

Dunbar Simms McLaurin was born on April 6, 1920, at Rentiesville, Oklahoma. He received his elementary education at Dunbar Model School, Summit, Oklahoma. In September of 1929, he entered Langston High School, Langston, Oklahoma, receiving his high school diploma in the spring of 1933. His undergraduate work was done at Southwestern College, Winfield, Kansas, from which he received the A. B. degree in the spring of 1937. The following year he received the A. M. degree from the University of Kansas, after which he spent a summer at the University of Colorado at Boulder. From 1938 through the first semester of 1942, he has continued his graduate work at the University of Illinois, the last year of which was devoted to the preparation of this study. He is a member of Artus, has held the Alpha Phi Alpha Scholarship, and has been a Fellow in the Department of Economics of the University of Illinois.

